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**BEFORE THE
FEDERAL COMMUNICATIONS COMMISSION
WASHINGTON, D.C. 20554**

In the Matter of

**Qwest Communications
International Inc.**

Application for Authority to Provide
In-Region, InterLATA Services in Colorado,
Idaho, Iowa, Montana, Nebraska, North
Dakota, Utah, Washington, and Wyoming

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) WC Docket No. 02-314
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**DECLARATION OF MICHAEL R. LIEBERMAN AND BRIAN F. PITKIN
ON BEHALF OF AT&T CORP.**

I. BACKGROUND AND SUMMARY

1. My name is Michael R. Lieberman. I am a District Manager in AT&T's Law and Government Affairs organization. In this position I am responsible for providing financial and industry analytical support relating to the costing and pricing of local telecommunications services. I was AT&T's primary participant in the development of the HAI/Hatfield Model of forward looking economic costs for local exchange networks and services, and I have been responsible for evaluating other costing models and methodologies such as the BCPM and the FCC's Synthesis Model. I have a Bachelor's degree in mathematics and a Master's degree in statistics from the State University of New York at Stony Brook. Prior to joining AT&T as a statistical consultant in 1978, I was a bio-statistical consultant with Carter-Wallace of Cranbury, New Jersey.

2. My name is Brian F. Pitkin. I am a Director in the Financial Consulting Division of FTI Consulting, Inc. During the past six years, I have had extensive experience with the cost models and underlying databases that have been submitted in proceedings arising out of the

Telecommunications Act of 1996 (“1996 Act”). I have testified on the inputs and methodologies used in a variety of cost models and cost studies used in state and federal proceedings for estimating costs of (1) unbundled network elements (“UNEs”) for interconnection, (2) basic local service for universal service fund (“USF”) requirements, and (3) access services. I received a Bachelor of Science degree in Commerce, with concentrations in both Finance and Management Information Systems, from the McIntire School of Commerce at the University of Virginia in 1993.

II. PURPOSE AND SUMMARY OF TESTIMONY

3. The purpose of our testimony is to demonstrate that Qwest’s UNE rates in the states of Montana, Nebraska, North Dakota, Washington, and Wyoming are overstated, and that Qwest’s attempt to justify those rates using the Commission’s benchmarking approach is flawed and must be rejected. In each of these five states, the state commissions did not develop rates based on TELRIC-principles.¹ Qwest’s answer to this obvious deficiency in its application is to lower the UNE rates in these five states at the very last minute so that (according to Qwest), the new lower rates would satisfy the Commission’s benchmarking test, using Colorado as the benchmark state. Qwest’s argument fails on multiple levels.

4. First, even assuming (contrary to fact)² that Qwest’s Colorado UNE rates are TELRIC-compliant, Qwest is wrong when it claims that its UNE rates in Montana, Nebraska, North Dakota, Washington, and Wyoming satisfy the Commission’s benchmarking analysis, using Colorado’s rates as a benchmark. As we demonstrate below, Qwest’s benchmarking analysis is flawed in two critical respects. First, Qwest’s analysis uses the Commission’s

¹ See Declarations of Robert Mercer, Dean Fassett and Richard Chandler.

² As demonstrated by AT&T’s other pricing experts, Colorado’s UNE rates are substantially inflated by myriad TELRIC-errors. See Mercer/Fassett Decl. & Mercer/Chandler Decl.

standardized minutes-of-use instead of state-specific and company-specific minutes-of-use. That approach is inappropriate and substantially distorts the results of the analysis. Second, Qwest fails to account for the fact that the Synthesis Cost Model does a relatively poor job of benchmarking between a mix of very rural states and less rural states. Correcting for these errors in Qwest's benchmarking analysis confirms that Montana, Nebraska, North Dakota, Washington, and Wyoming do not, in fact, pass the Commission's benchmarking test.

5. Second, we demonstrate that Qwest's inflated UNE rates preclude competitive entry in at least four of the states in Qwest's application. As we show below, the statewide margins available to new entrants – using a margin-maximizing combination of UNE and resale entry – are not remotely sufficient to cover an efficient carrier's internal costs of entry.

III. QWEST'S NON-LOOP AND SWITCHING RATES ARE NOT TELRIC COMPLIANT.

6. As demonstrated by AT&T's other witnesses, it is clear that Qwest's rates in Idaho, Iowa, Montana, Nebraska, North Dakota, Utah, Washington, and Wyoming are not TELRIC compliant. Unable to defend these rates on the merits, Qwest implemented a series of rate reductions in each of those states. And Qwest now claims that the resulting rates in each state are sufficient to warrant Section 271 authority because, after those reductions, they pass the Commission's benchmarking test relative to Colorado. Qwest is wrong.

7. As a preliminary matter, Qwest's assertions presume that the rates established in Colorado, its proposed benchmark state, are TELRIC-compliant. However, the AT&T declarations being filed concurrently with this declaration by Messrs. Mercer, Fassett, Chandler and Weiss demonstrate that the Colorado rates are inflated by numerous clear TELRIC errors and, as a result, are significantly higher than properly-calculated TELRIC-based rates. In any

event, even if TELRIC principles had been followed in Colorado, Qwest's benchmarking analysis cannot be relied upon, because that analysis is fundamentally flawed.

A. Qwest's North Dakota and Washington Non-Loop Rates Exceed Those Of Colorado On A Cost Adjusted Basis.

8. Qwest's non-loop and switching benchmark analyses are flawed because they are based on the Commission's standardized minutes-of-use, rather than on each state's state-specific minutes of use.³ Qwest has defended its reliance on non-state-specific minutes by pointing out that benchmarking comparisons require that the state-specific minutes data (which are publicly available from ARMIS) be divided between interoffice and intraoffice minutes, and that Qwest has not made those allocations available in this proceeding.⁴ Because Qwest's state-specific interoffice vs. intraoffice minutes-of-use allocations are unavailable in this proceeding, Qwest contends that no state-specific data – including aggregated ARMIS state-specific minutes – can be used in a benchmark analysis. Qwest's argument is obviously wrong.

9. As the Commission has explained, "UNE rates are set by state commissions based on state-specific costs divided by total demand. The UNE rates therefore necessarily reflect state-specific minutes-of-use and traffic assumptions. Use of state-specific minutes-of-use and traffic assumptions to develop per-line per-month UNE-platform prices for a benchmark state and an applicant states is therefore consistent with the manner in which states establish the UNE-Platform rates."⁵ Current state-specific volumes will also better reflect the relative actual

³ Qwest's benchmark comparisons use the Commission's standardized minute assumptions: 1200 originating and 900 terminating local minutes per line per month; and 370 originating and terminating intraLATA toll, intrastate interLATA and interstate interLATA minutes per line per month.

⁴ See Qwest July 22 Ex Parte Letter at 3.

⁵ See *New Jersey 271 Order* ¶ 53.

charges to purchasers of UNEs. These Commission findings unambiguously confirm that the use of state-specific minutes-of-use produces far more accurate benchmarking results than does the use of national average minutes. Because the Commission's benchmarking analysis is supposed to be an objective short cut test to assess whether an applicant state's rates fall within a reasonable range of TELRIC-compliance, allowing applicants to pick-and-choose the minutes-of-use on which to pin their applications – which can greatly affect that analysis –allows applicants to game the system.

10. The fact that Qwest has not made its state-specific interoffice/intraoffice allocations available for the purposes of conducting fully state-specific benchmarking analyses certainly does not mean that the better approach is to abandon all state-specific minutes-of-use data, and instead to base the benchmarking approach on national minutes-of-use assumptions and national interoffice/intraoffice minutes allocations that are necessarily less state-specific. Two wrongs do not make a right – to the extent that non-state-specific assumptions must be made under either approach, common sense and basic mathematics dictate that a benchmarking analysis that starts with state-specific total minutes-of-use (as we are advocating) would more accurately reflect relative costs than an analysis that relies on neither state-specific total minutes, nor state-specific interoffice/intraoffice allocations.⁶

11. In the past, Qwest has attempted to defend the use of national average minutes in its benchmarking analyses on the grounds that in some cases, use of national average minutes data instead of state-specific minutes produces greater state-to-state cost-adjusted rate variations than is produced by the state-specific data, and in other cases the national average minutes data

⁶ See *id.* Qwest also claims that the fact that AT&T's and WorldCom's benchmarking analysis fails to reflect state-specific allocations of minutes between originating and terminating calls, and

produce lower state-to-state cost-adjusted rate differences than produced by the state-specific data.⁷ Qwest also has said that the relative difference in the national average and state-specific benchmarking analyses may vary from year to year (because the total number of minutes varies from year to year).⁸ But that is precisely why state-specific data must be used – it would be entirely arbitrary to allow a BOC to choose whatever data are most beneficial with respect to the particular states and at the particular times that the BOC chooses to file applications. And Qwest has clearly employed such gamesmanship here. Using state-specific minutes-of-use, and reasonable estimates for the allocation of those minutes shows that Qwest's North Dakota and Washington non-loop rates fail the Commission's benchmarking analysis. On the other hand, Qwest's flawed non-loop benchmarking analysis – which is based on national minutes – produces a distinctly more favorable result for Qwest.

12. Qwest's claim that the use of national average minutes to conduct its benchmarking analysis does not benefit Qwest also is irrelevant (in addition to being patently false). The purpose of the Commission's benchmarking analysis is to determine whether rates in a particular state are similar to the rates in the benchmark state, on a cost adjusted basis. The proper methodology for conducting that analysis does not depend on whether one methodology systematically produces higher or lower results than a competing methodology. Rather, the proper methodology is the one that produces the most accurate results. As recognized by this Commission in the *New Jersey 271 Order* (§ 53), the most accurate benchmarking analysis is

between calls to an access tandem and calls direct to a POP. But those allocations have little, if any, impact on the results of the benchmark analysis.

⁷ See *Qwest July 22 Ex Parte Letter* at 3-5.

⁸ See *id.*

one that employs state-specific minutes and, if available, state-specific assumptions relating to the allocation of those minutes.⁹

13. A properly applied non-loop benchmark analysis – using state-specific minutes – shows that Qwest’s North Dakota non-loop costs exceed those in Colorado by 10 percent, yet Qwest’s North Dakota non-loop rates exceed those in Colorado by a much larger 25 percent. *See* Figure I (below) and Exhibit A. Likewise, Qwest’s Washington non-loop costs are 15 percent below those in Colorado, yet Qwest’s Washington non-loop costs are only 9 percent below those in Colorado. *See* Figure I (below) and Exhibit A. Thus, it is clear that Qwest’s North Dakota and Washington cost-adjusted non-loop rates exceed those of Colorado. *See* Figure I (below).

Figure I

Qwest Cost-Adjusted Non-Loop UNE Rates

	<u>Applicant State</u>	<u>Colorado Benchmark</u>	<u>Difference</u>	<u>Cost-Adjusted Difference</u>
<u>North Dakota</u>				
Total Non-Loop Rate (per-line, per-month)	\$ 5.72	\$ 4.59	25 %	
UNE Synthesis Model Non-Loop Cost	\$ 4.48	\$ 4.07	10 %	14 %
<u>Washington</u>				
Total Non-Loop Rate (per-line, per-month)	\$ 4.20	\$ 4.59	-9 %	
UNE Synthesis Model Non-Loop Cost	\$ 3.48	\$ 4.07	-15 %	7 %

B. Qwest’s Montana, Nebraska, North Dakota, Washington, and Wyoming Switching Rates Exceed Those Of Colorado On A Cost Adjusted Basis.

14. A well-known characteristic of the Synthesis Cost Model is that it overstates the costs of transport and tandem switching in every state. This issue arose most recently in a Virginia UNE rate case before this Commission. In that case, the transport cost estimates generated by AT&T’s runs of the Synthesis Model were *three times* as high as the transport costs

⁹ The benchmarking analysis should reflect relative cost-adjusted UNE charges encountered by the average subscriber in one state versus the average subscriber in the comparison state. This is

estimated by Verizon using another model. Provoked by this anomaly, a member of the Commission's staff asked AT&T's transport witness, Steve Turner, "why don't you just all agree that we should use [Verizon's transport cost estimates] and we could all go home?"¹⁰ Mr. Turner replied that, if forced to choose between the Synthesis Model and Verizon models for transport costs without modifying either one, he would choose the latter.¹¹

15. The amount by which the Synthesis Cost Model overstates transport and tandem switching increases as line density decreases. Thus, the Synthesis Cost Model overstates transport and tandem switching by a larger amount in rural areas (which generally have low line densities) than in less rural states (which generally have higher line densities).¹² Figure II (below) illustrates this point by comparing the ratio of the Synthesis Cost Model estimate of transport costs to the actual UNE rates adopted by state Commissions. As shown in Figure II, that ratio increases with decreased line density, and decreases with increased line density. By contrast, the other non-loop rate elements appear to consistently estimate costs regardless of line density.

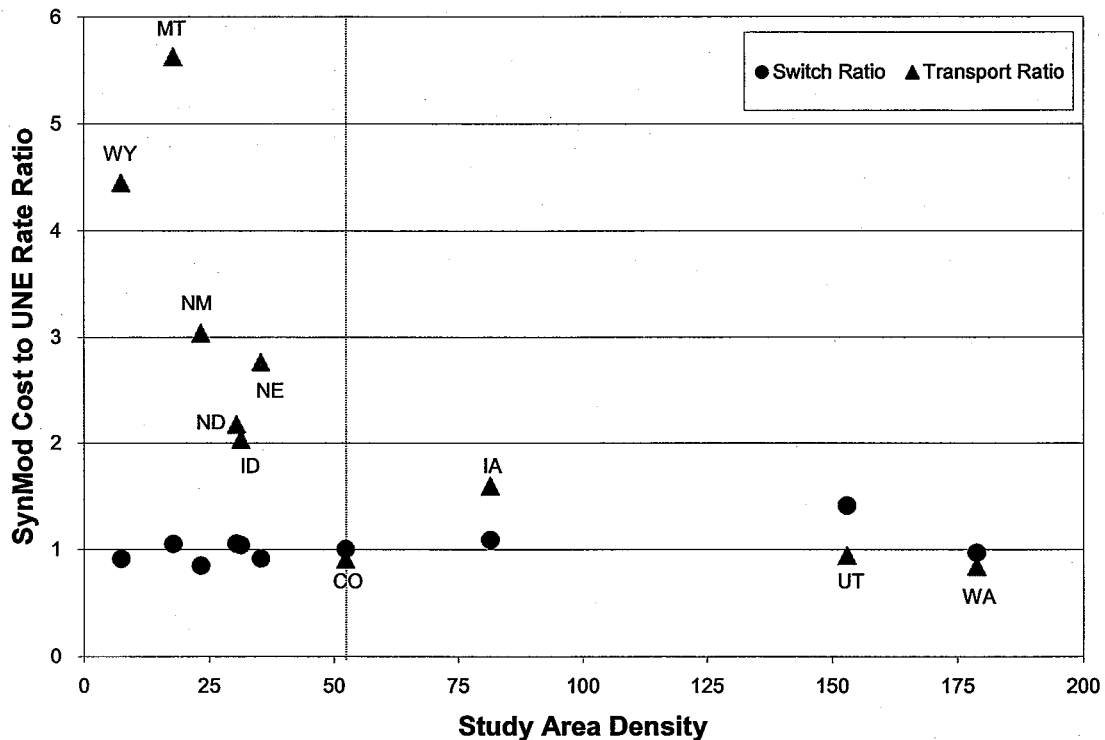
best accomplished by reflecting the average minutes for the respective states.

¹⁰ *Id.*, 19 Tr. 5552 (Nov. 29, 2001) (Mr. Morris).

¹¹ *Id.* at 5553 (Mr. Turner).

¹² We explained some of the reasons for this characteristic of the Synthesis Cost Model in our testimony filed in the Qwest II proceeding.

Figure II
Synthesis Model Costs to Actual UNE Rate Ratio



16. Because the Synthesis Cost Model substantially overstates transport and tandem switching costs (and thus aggregate non-loop costs) in less densely populated states relative to more densely populated states, the short-cut benchmarking approach cannot be relied on as a test for TELRIC-compliance. In many circumstances, such a test will create the illusion that large non-loop rate differences are justified by costs, when in fact they are not.

17. Of course, that does not mean that no switching-related benchmarking test can be used. A benchmarking analysis of non-loop elements, excluding transport and tandem switching, could still be appropriate – and equally simple to implement. And the transport and

tandem switching rate elements can be examined directly, with no benchmarking, in the same way that the Commission examines non-recurring rate elements.

18. In this case, it is clear that the problems with estimating relative costs for the transport and tandem switching rate elements preclude a valid non-loop benchmark analysis. Indeed, Colorado has approximately 52 lines per square mile. By contrast Montana has only about 18 lines per square mile, Nebraska has only about 35 lines per square mile, North Dakota has only about 30 lines per square mile, and Wyoming has only about 7 lines per square mile. Thus, the Synthesis Cost Model will overstate the costs of transport and tandem switching by substantially more in Montana, Nebraska, North Dakota, and Wyoming than in Colorado. Because the relative transport and tandem switching costs differences in these states cannot accurately be computed, any benchmarking analysis for this collection of states that includes these rate elements is meaningless.

19. Instead, a non-loop benchmarking analysis in this case would have to be limited to the other non-loop elements (the core switching elements), and the rates for transport and tandem switching will have to stand on their own merits. Just as the Commission does not benchmark for non-recurring costs due to the lack of a legitimate method of adjusting for costs, the Commission cannot benchmark tandem switching or transport costs due to the lack of a valid method of adjusting for cost.¹³

¹³ The fact that the Commission's Synthesis cost model may not be appropriate for benchmarking when the transport and tandem switching components are included in the analysis does not mean that the Synthesis Model cannot be used for its intended purpose of computing USF contribution and support levels. Because the USF contribution and support levels are based on the total cost of basic service (including the loop element), the transport and tandem switching component of the USF calculation has a much smaller impact (approximately 1.6%, on average) on the overall model results. By contrast, the tandem switching and transport elements make up a very high proportion (over 17%) of non-loop costs.

20. We have conducted a non-loop benchmark test for Montana, Nebraska, North Dakota and Wyoming that excludes transport and tandem switching. That analysis confirms that Qwest's Montana, Nebraska, North Dakota, Washington and Wyoming switching rates cannot be justified by a comparison to Qwest's Colorado switching rates. Indeed, Qwest's Montana, Nebraska, North Dakota, Washington and Wyoming switching rates are 7 percent, 17 percent, 27 percent, 7 percent, and 11 percent higher than those in Colorado on a cost adjusted basis. See Figure III (below).¹⁴

Figure III
Qwest Cost-Adjusted Switching UNE Rates

	<u>Applicant State</u>	<u>Colorado Benchmark</u>	<u>Difference</u>	<u>Cost-Adjusted Difference</u>
<u>Montana</u>				
Total Non-Loop Rate (per-line, per-month)	\$ 4.47	\$ 3.89	15 %	
UNE Synthesis Model Non-Loop Cost	\$ 3.85	\$ 3.60	7 %	7 %
<u>Nebraska</u>				
Total Non-Loop Rate (per-line, per-month)	\$ 4.98	\$ 3.89	28 %	
UNE Synthesis Model Non-Loop Cost	\$ 3.93	\$ 3.60	9 %	17 %
<u>North Dakota</u>				
Total Non-Loop Rate (per-line, per-month)	\$ 4.75	\$ 3.89	22 %	
UNE Synthesis Model Non-Loop Cost	\$ 3.46	\$ 3.60	-4 %	27 %
<u>Washington</u>				
Total Non-Loop Rate (per-line, per-month)	\$ 3.65	\$ 3.89	-6 %	
UNE Synthesis Model Non-Loop Cost	\$ 3.16	\$ 3.60	-12 %	7 %
<u>Wyoming</u>				
Total Non-Loop Rate (per-line, per-month)	\$ 4.17	\$ 3.89	7 %	
UNE Synthesis Model Non-Loop Cost	\$ 3.44	\$ 3.60	-4 %	11 %

¹⁴ These results correctly reflect state-specific minutes (in contrast to Qwest's switching-only analysis, which is based on standardized minutes).

IV. STATEWIDE UNE-P ENTRY IS NOT ECONOMICALLY FEASIBLE IN IDAHO, IOWA, MONTANA, AND WASHINGTON.

21. Given Qwest's overstated UNE rates, it should be no surprise that economically feasible statewide UNE-based residential entry is not possible in Idaho, Iowa, Montana, and Washington.

22. The business case viability of a UNE-based offering -- that is, whether it makes sense for AT&T (or any other entrant) to commit its shareholders' capital to that enterprise -- is no different, analytically, from any other investment decision. The potential entrant's scarce capital must be devoted to its highest-value uses. Thus, a carrier considering whether to enter the local services business in a state (or to continue to participate in that business) must determine whether revenues attributable to the service will exceed the costs of providing the service by an amount sufficient to generate a return that is commensurate with the expectations of investors concerning risks and returns *and* with competing uses for the capital.

23. There are three general steps in this analytical approach: (1) identifying and estimating each of the costs of providing the service, (2) identifying and estimating each of the revenue opportunities that will be generated by providing the service, and (3) deriving from these estimated "cash flows" some standard financial measure that allows the investment opportunity to be assessed (and compared to alternative investment opportunities).

24. The Commission has offered guidance on the type of data that should be included when making these calculations. The Commission explained that, in addition to the revenues that are directly available due to local entry, several other revenue sources would be relevant to a price squeeze analysis, including intraLATA toll and interLATA toll revenue contributions, and the amount of federal and state universal service revenues that would be available to new entrants. *See, e.g., Vermont 271 Order* ¶ 71. The Commission also stated that a margin analysis

should consider whether entry is viable using a mix of a UNE-based and resale-based local entry strategy. *See id.* ¶ 69.

25. As described below, our analysis accounts for all of these factors. In particular, our analysis of the level of revenues that are available to potential new entrants reflects intraLATA toll and interLATA toll revenue contributions, as well as the amount of federal and state universal service revenues that would be available to new entrants. Our analysis also accounts for the possibility that a new entrant may enter a state using a combination of UNE-based and resale services (our analysis assumes a UNE-based approach where that is the most highest margin entry mode, and a resale-based approach where that is the most highest margin mode of entry).

26. Furthermore, our analysis is based on the internal costs of an efficient entrant. In the past, the Commission has expressed concern as to whether the well-known internal cost estimates in our analysis are those of efficient carriers. The answer to that question is yes. As explained in the declaration of Stephen Bickley, the internal cost figures on which our analysis is partly based do not reflect carriers' *current* internal costs, but are forward-looking costs that account for future savings associated with efficiencies and increased scale. *See* Bickley Qwest I and Qwest II Declarations.

27. Because telecommunications carriers are subject to numerous reporting requirements, and because reliable subscription market research products are available, obtaining the inputs necessary to conduct our analysis was relatively straightforward. Carrier-specific data, including retail local service prices, UNE prices, and access prices are largely publicly reported and directly verifiable. We are confident, therefore, that the following analysis paints an

accurate picture of the substantial barrier that Qwest's UNE prices in these states pose to entry of carriers who could provide residential competition.

28. The remainder of this section is organized as follows. First, we describe the costs associated with a residential UNE-Platform offering in each of the four states. Second, we describe the revenues that are available to carriers serving customers in these states. Third, we translate these cash flows into margins by looking at the differences between the revenues that would be generated and costs that would be incurred by a new entrant carrier in each state -- a type of financial measure commonly used by businesses to make investment decisions.

29. This margin analysis shows that economically feasible residential UNE-Platform-based competition cannot be undertaken by competitive carriers in Idaho, Iowa, Montana,¹⁵ and Washington. *See* Exhibit B to our declaration, entitled "UNE Connectivity Margin" summarizes the results of our cost, revenue, and margin analyses for each state. We refer to, and generally follow, the first page of each state-specific margin analysis included within. *See* Exhibit B in the discussion below. We also refer to back-up pages for each state, which provide additional support on the assumptions and calculations underlying. *See* Exhibit B.

30. **Costs.** There are three basic categories of cost associated with UNE-Platform-based services: (1) "connectivity" costs (*i.e.*, the costs associated with purchasing the necessary network elements from the incumbent), (2) non-recurring costs, (*i.e.*, one-time costs associated with purchasing the network elements) and (3) a carrier's own internal costs of running a local telephone service business (*e.g.*, developing, maintaining and operating computer support

¹⁵ Qwest's own analysis of Montana's gross margin (Exhibit 10-1 of Qwest's September 30, 2002 Addendum ex-parte filing) further supports the proposition that the available gross margins are insufficient to cover a CLECs internal cost. It is important to note that there are no non-recurring costs for new installations, no cost for daily usage feeds, and their inclusion of

systems, as well as marketing, customer care, and administration). Our analysis focuses primarily on the first two categories of costs.

31. Figure IV (below) displays the monthly per line rates for non-usage sensitive switching and loop elements (UNE loops and UNE switch ports). The sources for these costs are shown in Exhibit B-1.

intraLATA toll revenue has no accompanying access cost (the access is already counted as a revenue and thus needs to be netted from the toll revenue).

Figure IV
Loop and Port Costs

<u>Item</u>	<u>Statewide Average</u>	<u>Zone 1</u>	<u>Zone 2</u>	<u>Zone 3</u>	<u>Zone 4</u>	<u>Zone 5</u>
<u>Loop Costs</u>						
Idaho	\$ 20.68	\$ 15.65	\$ 23.76	\$ 40.50		
Iowa	\$ 16.48	\$ 12.69	\$ 15.14	\$ 26.39		
Montana	\$ 23.84	\$ 23.10	\$ 23.90	\$ 27.13	\$ 29.29	
Washington	\$ 14.72	\$ 5.86	\$ 10.80	\$ 12.21	\$ 13.76	\$ 18.51
<u>Port Costs</u>						
Idaho	\$ 1.34	\$ 1.34	\$ 1.34	\$ 1.34		
Iowa	\$ 1.15	\$ 1.15	\$ 1.15	\$ 1.15		
Montana	\$ 1.58	\$ 1.58	\$ 1.58	\$ 1.58	\$ 1.58	
Washington	\$ 1.34	\$ 1.34	\$ 1.34	\$ 1.34	\$ 1.34	\$ 1.34

32. Most other network elements required for local service are charged on a usage basis. Therefore, it is necessary to combine published per-minute rates with usage volumes to estimate the cost of the other network elements. Colorado-specific local usage volumes are available from Qwest's annual dial equipment minute submissions to NECA (the same data that is used in the Commission's Synthesis Cost Model). As local dial equipment data was not yet reported for 2001, the 2000 split of intrastate between toll and local was used. This calculation of "usage minutes" retains the non-conversation time that is reflected in dial equipment minutes and which is included in the cost of UNEs. We have assumed that there will be a netting of charges for traffic terminating to a new entrant's UNE-P customer and thus originating local traffic and its associated termination is relevant for local usage on these lines. For the toll-related minutes-of-use categories, we are using the TNS Telecoms (formerly PNR) residential volumes per line from the Bill Harvesting market research. These toll volumes and the calculations for local, usage are detailed in Exhibit B to this declaration.

33. For each category of usage (*e.g.*, local, intraLATA toll, etc.), particular network architecture assumptions must be applied. Local usage must be apportioned to reflect the fact that some local calls are “intra-switch” calls (where the calling and called parties are served by the same switch) and some are “inter-switch” calls. Inter-switch calls require assumptions regarding the portion of these calls that are routed directly between the two switches and those that are routed via a tandem. We have assumed that approximately 2% of local inter-switch minutes and 20% of intraLATA toll and interLATA minutes are tandem-routed. Approximately 35% of local calls in Qwest’s network are assumed to be intra-switch calls.¹⁶ See Exhibit B-8.

34. The calculated intra-switch, inter-switch, and tandem conversation minutes (or, in the case of toll calls, the toll direct and toll tandem conversation minutes) are then multiplied by the corresponding Qwest usage charges in each state to arrive at expected monthly usage costs per line, as detailed in Exhibit B-8. The total monthly usage charges per line, which are also listed in Exhibit B-1, are summarized in the following table.¹⁷

¹⁶ Although the Commission’s Synthesis Model recognizes that about 50 percent of local calls would be intraswitch calls in an efficiently designed network with properly sized switches, the relevant figure for a new entrant contemplating entry is what it will actually pay Qwest. Because Qwest’s existing network is not efficiently designed and sometimes uses two switches where one would be more efficient, the 35 percent figure must be used to determine expected connectivity costs that will be billed by Qwest to the competing carrier.

¹⁷ UNE purchasers must pay switching, transport and related usage charges for access-related usage whether a call is originated or terminated by their customer, and we have used the assumption that the customer receives as much access traffic as he or she originates. For intraLATA toll traffic, every originating minute is associated with a terminating minute to another customer (for simplicity assumed to be served by the same ILEC) in the ILEC’s service area.

Figure V

Usage Costs

<u>Item</u>	<u>Statewide Average</u>	<u>Zone 1</u>	<u>Zone 2</u>	<u>Zone 3</u>	<u>Zone 4</u>	<u>Zone 5</u>
<u>Usage Costs</u>						
Idaho	\$ 3.27	\$ 3.27	\$ 3.27	\$ 3.27		
Iowa	\$ 4.00	\$ 4.00	\$ 4.00	\$ 4.00		
Montana	\$ 4.20	\$ 4.20	\$ 4.20	\$ 4.20	\$ 4.20	
Washington	\$ 3.11	\$ 3.11	\$ 3.11	\$ 3.11	\$ 3.11	\$ 3.11

35. We have included the development of the daily usage feed (“DUF”) charge, in Exhibit B-10, which are summarized in the following table.

Figure VI

Daily Usage Feed Costs

<u>Item</u>	<u>Statewide Average</u>	<u>Zone 1</u>	<u>Zone 2</u>	<u>Zone 3</u>	<u>Zone 4</u>	<u>Zone 5</u>
<u>Daily Usage Feed Costs</u>						
Idaho	\$ 0.25	\$ 0.25	\$ 0.25	\$ 0.25		
Iowa	\$ 0.30	\$ 0.30	\$ 0.30	\$ 0.30		
Montana	\$ 0.32	\$ 0.32	\$ 0.32	\$ 0.32	\$ 0.32	
Washington	\$ 0.36	\$ 0.36	\$ 0.36	\$ 0.36	\$ 0.36	\$ 0.36

36. In total, the average recurring monthly connectivity costs (loop plus usage plus DUF) incurred by Qwest to serve a customer in each state are summarized in the following table, which is the monthly connectivity costs for the various zones weighted by the relative number of estimated *residence* lines in each zone served by Qwest. See Exhibit B-1.

Figure VII

Platform Recurring Costs

<u>Item</u>	<u>Statewide Average</u>	<u>Zone 1</u>	<u>Zone 2</u>	<u>Zone 3</u>	<u>Zone 4</u>	<u>Zone 5</u>
<u>Platform Recurring Costs</u>						
Idaho	\$ 25.54	\$ 20.51	\$ 28.62	\$ 45.36		
Iowa	\$ 21.93	\$ 18.14	\$ 20.59	\$ 31.84		
Montana	\$ 29.94	\$ 29.20	\$ 30.00	\$ 33.23	\$ 35.39	
Washington	\$ 19.53	\$ 10.67	\$ 15.61	\$ 17.02	\$ 18.57	\$ 23.32

37. In addition to the recurring monthly connectivity costs, new entrants must also pay Qwest for one-time, non-recurring costs associated with acquiring that customer (such as set-up costs). For the purpose of this analysis, we have assumed that those up-front costs will be recovered over a period of 30 months to reflect a 2½ year customer life. Those costs are summarized in Figure VIII below. *See also* Exhibit B-1.

Figure VIII

Non-Recurring Costs

<u>Item</u>	<u>Statewide Average</u>	<u>Zone 1</u>	<u>Zone 2</u>	<u>Zone 3</u>	<u>Zone 4</u>	<u>Zone 5</u>
<u>Non-Recurring Costs</u>						
Idaho	\$ 0.21	\$ 0.21	\$ 0.21	\$ 0.21		
Iowa	\$ 0.22	\$ 0.22	\$ 0.22	\$ 0.22		
Montana	\$ 0.21	\$ 0.21	\$ 0.21	\$ 0.21	\$ 0.21	
Washington	\$ 0.37	\$ 0.37	\$ 0.37	\$ 0.37	\$ 0.37	\$ 0.37

38. **Revenues.** The Qwest local service rates that UNE-Platform based providers can obtain for their services are effectively capped by the retail rates charged by Qwest. If new entrants attempt to charge higher rates than Qwest, these new entrants would be unable to attract

customers.¹⁸ Qwest local service rates are readily available and verifiable from many sources, including the Center for Communications Management Information.¹⁹

39. There are, of course, other revenue opportunities available to new entrants. A local service provider can expect to sell vertical features to many customers. We used data taken from the TNS Telecoms Bill Harvest market research product updated through the second quarter of 2002, to determine the average vertical feature revenue per month a new entrant can expect to receive in each state. Our analysis also accounts for the federal subscriber line charge monthly revenue updated for the July 2002 increase.

40. In addition, a UNE-Platform-based provider earns access revenues for originating and terminating long-distance calls. This revenue may either be explicit (when a CLEC charges an independent IXC), or implicit (if the CLEC acts as its own IXC). To estimate these access revenues it is necessary to multiply expected toll minutes (derived from the TNS Telecoms Bill Harvest toll minutes-of-use data) by the relevant access charges that AT&T can replace with UNEs.²⁰ Our calculations of amounts for estimated monthly per line access charge revenues are set forth in Exhibit B-5.

¹⁸ In fact, this assumption probably overstates margins because if competitive entry of any sizeable scale were to occur, Qwest would probably decrease its retail rates in an effort to respond to such competition. While such reductions are the essence of competition -- and obviously advantageous to consumers in the short run -- they also increase the risk faced by the new entrant. It is for this reason that it is critical that UNE rates be based on properly calculated TELRIC, *i.e.*, the forward-looking costs of an efficiently configured and operated competitor. This will ensure that consumers receive the full benefit of competitive pricing over the long run by maximizing the likelihood that competitors are not squeezed out of the market.

¹⁹ The Center for Communications Management Information ("CMMI") is a nationally recognized provider of telecommunications rate and tariff information. See www.cmmi.com.

²⁰ Dedicated transport access charges are not included because AT&T does not avoid these access charges through its acquisition of a UNE-P local customer.

41. We also sought to include the amount of portable federal and state universal service fund revenues that would be available to carriers in each state and to reflect the funding available from the CALLS program.

42. In addition, we have computed the intraLATA and InterLATA toll contributions that may be available to new entrants. This information is proprietary, and is summarized in confidential Exhibit C.

43. The following figure summarizes our calculations of the total revenues by state that AT&T (or another entrant) could expect to receive from residential UNE-based service (this figure excludes intraLATA and interLATA toll revenue contributions because those values are proprietary).²¹

Figure IX

Total Revenues

<u>Item</u>	<u>Statewide Average</u>
<u>Total Revenues</u>	
Idaho	\$ 29.14
Iowa	\$ 25.19
Montana	\$ 36.43
Washington	\$ 26.66

44. **Margin.** There are many standard financial measures for assessing the profitability of investing (or continuing) in a line of business. The margin per line can be

²¹ There are no measurable residential revenue contributions or cost savings in cases where a carrier has already entered the business market. Business and residential services are entirely different, and require different types and levels of services. As a result, AT&T and other carriers make entry decisions for business and residential services separately, based on the available margins for each service.

computed by comparing a carrier's expected costs with its expected revenues for each line. A "gross" UNE-P margin can be determined by subtracting expected direct connectivity expenses (*e.g.*, cost of goods sold) from expected revenues. A "net" (or operating) UNE-P margin can only be determined by subtracting all expected operating expenses (*e.g.*, marketing, customer service, billing, order processing, and other operating activities) from expected revenues.

45. Also, as noted above, this analysis accounts for the possibility that a new entrant may enter a state using a combination of UNE-based and resale services by assuming, on a zone-by-zone basis, that a CLEC will adopt a UNE-based approach where that is the highest margin entry mode, and a resale-based approach where that is the highest margin mode of entry.

46. These margin analyses for four of the Qwest states (Idaho, Iowa, Montana, and Washington) highlighted in this declaration show that residential *gross* margins (for this profit-maximizing amalgam of UNE-based/Resale-based local entry) are very low. *See* Exhibit B-1. The following figure summarizes the results, on a statewide average basis, for each of these states. The figure below does not reflect the proprietary interLATA and IntraLATA toll contributions. Those values are shown in confidential Exhibit C.

Figure X

Residential Gross Margins

<u>Item</u>	<u>Statewide Average</u>
<u>Residential Gross Margin</u>	
Idaho	\$ 6.52
Iowa	\$ 5.38
Montana	\$ 6.28
Washington	\$ 6.76

47. To compute a potential entrant's *net margins*, it is necessary to account for the potential entrant's internal costs of entry. As explained in the declaration of Stephen Bickley, an efficient entrant's internal costs – e.g., customer care, uncollectibles, and general and administrative costs, exceed \$10.00 per line per month in each of these states. *See* Bickley Qwest I and Qwest III Declarations.

48. As shown in the above table, on a statewide basis, all four of the states do not generate margins sufficient to recover a new entrant's internal costs of \$10.00 or more of providing local services. And adding interLATA and IntraLATA toll contributions to this analysis does not change those results. *See* confidential Exhibit C. Thus, there is no question that Qwest's UNE rates in Idaho, Iowa, Montana, and Washington create a price squeeze that precludes competitive entry.²²

**V. QWEST MONTANA AND WYOMING DEAVERAGING METHODOLOGIES
CREATE A SUBSTANTIAL BARRIER TO COMPETITIVE ENTRY.**

49. Local entry in Montana and Wyoming is further hampered by Qwest's unusual deaveraging methodology. Both the Montana and Wyoming state commissions implemented a deaveraging methodology (adopting Qwest's proposal) that makes it virtually impossible for potential entrants to determine which customers are located in which UNE rate zones.²³

²² A "UNE-L" strategy would be wholly uneconomic for residential entry. Quite apart from the fact that carriers cannot rationally invest in switches until they have used UNE-P to build up a customer base (*UNE Remand Order* ¶ 260), Qwest and other BOCs have not deployed technology that allows customers to change from one local exchange carrier to another efficiently and effectively, in mass market quantities and at low cost. Instead, these changes require manual "hot cuts" which are expensive and which have proven impossible for BOCs to administer without causing unacceptable levels of service outages even when UNE-L is used only for low volumes of orders for business customers.

²³ Unlike the rest of the Qwest's states, the Montana and Wyoming state commissions did not assign wire centers to distinct UNE zones, but instead relied upon current retail zones that split wire centers into multiple areas. Each wire center contains a base rate area surrounding the switch and multiple zone increments based on a customer's distance from the switch. As a result,

Consequently, potential new entrants must request that information from Qwest on a customer-by-customer basis.²⁴ This unusual deaveraging approach inhibits local entry in two ways. First, it makes it difficult for potential entrants to develop and implement an entry strategy. Because the revenues available to new entrants varies widely from UNE zone to UNE zone, the inability to determine which potential customers are located in which UNE zone (except on a case-by-case basis) makes it difficult, if not impossible, to develop and implement an effective entry strategy. Second, because Qwest will know exactly where CLECs intend to enter -- indeed, CLECs must request customer UNE zone information directly from Qwest -- Qwest has a competitive advantage that will allow it to thwart competitive entry.

VI. CONCLUSION

50. Contrary to Qwest's claims, Qwest's UNE rates for Montana, Nebraska, North Dakota, Washington and Wyoming do not satisfy the Commission's benchmarking analysis, using Colorado as the benchmark state. Furthermore, the UNE rates in Idaho, Iowa, Montana, and Washington are so far inflated above TELRIC principles that local entry is not economically feasible.

no mechanism exists for CLECs to independently determine the zones in which each customer falls. The only precise method currently available to CLECs (documented on Qwest's website <http://www.qwest.com/wholesale/clecs/geodeavg.html>) is to enter each customer it plans on targeting into Qwest's IMA database.

²⁴ *See id.*

VERIFICATION PAGE

I declare under penalty of perjury that the foregoing Declaration is true and correct.

/s/ Michael R. Lieberman

Michael R. Lieberman

Executed on: October 15, 2002

I declare under penalty of perjury that the foregoing Declaration is true and correct.

/s/ Brian F. Pitkin

Brian F. Pitkin

Executed on: October 15, 2002

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Connectivity Margin for Qwest Washington

SGAT Rates

COSTS	Statewide	Zone 1	Zone 2	Zone 3	Zone 4	Zone 5
	Average					
Zone weights		1%	18%	20%	22%	40%
Loop	\$14.72	\$5.86	\$10.80	\$12.21	\$13.76	\$18.51
Port	\$1.34	\$1.34	\$1.34	\$1.34	\$1.34	\$1.34
Features	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Usage	\$3.11	\$3.11	\$3.11	\$3.11	\$3.11	\$3.11
DUF	\$0.36	\$0.36	\$0.36	\$0.36	\$0.36	\$0.36
OSS - RC	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Platform - Recurring Cost	\$19.53	\$10.67	\$15.61	\$17.02	\$18.57	\$23.32
NRC	\$0.37	\$0.37	\$0.37	\$0.37	\$0.37	\$0.37
Total Platform (w/NRC)	\$19.90	\$11.04	\$15.98	\$17.39	\$18.94	\$23.69

REVENUES

RES @ Qwest WA

Basic Local Svc

UNE Zone 1	\$	12.50
UNE Zone 2	\$	12.50
UNE Zone 3	\$	12.50
UNE Zone 4	\$	12.50
UNE Zone 5	\$	12.50

Basic Local Svc - Statewide \$ 12.50

Other Revenue Sources

Features	\$	6.54
Subscriber Line Charge	\$	5.91
IntraLATA Toll Contribution		
InterLATA Toll Contribution		
Access	\$	1.71
Total Revenue (average)	\$	26.66

TNS Bill Harvest _ 3Q01 - 2Q02

AT&T Proprietary

AT&T Proprietary

MARGINS - RES @ Qwest WA Level %

UNE-P Margins			
\$ / Line		Average	
UNE Zone	1 - (1%)	\$	15.62
	2 - (18%)	\$	10.68
	3 - (20%)	\$	9.27
	4 - (22%)	\$	7.72
	5 - (40%)	\$	2.97
	Average	\$	6.76

% / Line		Average	
UNE Zone	1		59%
	2		40%
	3		35%
	4		29%
	5		11%
	Average		25%

UNE-P and Resale Discount			
\$ / Line		Average	
UNE Zone	1 - (1%)	\$	15.62
	2 - (18%)	\$	10.68
	3 - (20%)	\$	9.27
	4 - (22%)	\$	7.72
	5 - (40%)	\$	2.97
	Average	\$	6.76

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Washington Resale Margin

TSR Discount	14.74%
Residence	14.74%
Features	14.74%
Retail Revenue	
Residence	\$ 12.50
Features	\$ 6.54
TSR NRC	\$ 13.10
TSR Margin (no Toll)	\$ 2.14

Residential Toll Conversation MOU Per line Per Month
Average Residential Toll Minutes 3Q01 - 2Q02

Qwest		Washington
Intra-Lata	Intra-State	26.0
	Inter-State	3.2
Inter-Lata	Intra-State	16.6
	Inter-State	51.0

Source: TNS ReQuest Market Monitor and Bill Harvesting Study

ARMIS-Based Local DEM Per line Per Month

	2001 Per Line Per Month Local DEM	Local DEM per line CAGR: 2001 vs 1998	Estimated 2002 Per Line Per Month Local DEM
2-Way DEM per Line	2,084	7.7%	2,244
1-Way DEM per Line	1,042		1,122

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Exhibit - B - 5 (WA)

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Local Revenue and Features

Retail Rate Zone	Res Lines	Average Local Rate	# of Wire Centers	Line Distribution
Rate Group 1	1,697,916	\$ 12.50	111	100%
Totals/Avg.	1,697,916	\$ 12.50	111	100%

Average Monthly Feature Revenue Per Bill	\$ 6.54
---	----------------

Source: TNS Bill Harvesting Study, 3Q01 - 2Q02

Basic Local and UNE Loop Rates by UNE Zone

UNE Rate Zone	Res Lines	UNE Loop Price	Average Local Rate	# of Wire Centers	Line Distribution
1	18,018	\$5.86	\$ 12.50	2	1%
2	304,321	\$10.80	\$ 12.50	13	18%
3	331,755	\$12.21	\$ 12.50	13	20%
4	371,218	\$13.76	\$ 12.50	14	22%
5	672,604	\$18.51	\$ 12.50	69	40%
Totals/Avg.	1,697,916	\$ 14.72	\$ 12.50	111	100%

Washington - Qwest		UNE Unit Cost Development									
		Local			Intralata toll		Intrastate InterLATA		Interstate InterLATA		
			interswitch local		On ILEC Network		interlata toll direct	interlata toll tandem	interlata toll direct	interlata toll tandem	
		intraswitch local	direct	tandem	intralata toll direct	intralata toll tandem					
EO Switching orig (average)	AHD Rates \$ 0.001178	1	1	1	1	1	1	1	1	1	
Local Switch - Common Trunk Port	\$ -		2	2	2	2	1	1	1	1	
Shared Transport	\$ 0.000780		1	1	1	1		1		1	
Reciprocal Comp/eo term	\$ 0.001178		1	1	1	1					
		\$ 0.0011780	\$ 0.0031360	\$ 0.0031360	\$ 0.0031360	\$ 0.0031360	\$ 0.0011780	\$ 0.0019580	\$ 0.0011780	\$ 0.0019580	
MOU		392.7	714.7	14.6	23.4	5.8	26.5	6.6	81.6	20.4	
Cost per Line		\$ 0.462564	\$ 2.241165	\$ 0.045738	\$ 0.073250	\$ 0.018313	\$ 0.031275	\$ 0.012996	\$ 0.096101	\$ 0.039933	

MOU Assumptions	Outbound	Inbound	total	intraoffice	tandem
Local	1122	0	1122	35%	2%
IntraLATA Toll	29	29	58	0%	20%
Intrastate InterLATA	17	17	33	0%	20%
Interstate InterLATA	51	51	102	0%	20%
Total	1219	97	1315		

DUF Record Calculation		Usage Records	
	Conversation MOU/MSG	Outbound	Inbound
Local	4	280	
IntraLATA Toll	4	7	7
Intrastate InterLATA	4	4	4
Interstate InterLATA	5	10	10
Total Records		324	

UNE Usage Cost by Service		% MOU	UNE Cost	Average Cost per Line
Local				
	Intraswitch local	35%	\$ 0.001178	
	Interswitch direct local	64%	\$ 0.003136	
	Interswitch tandem local	1%	\$ 0.003136	
			\$ 0.002451	2.75
IntraLATA Toll				
	On ILEC Network			
	intralata toll direct	80%	\$ 0.003136	
	intralata toll tandem	20%	\$ 0.003136	
			\$ 0.003136	0.18
Intrastate InterLATA				
	interlata toll direct	80%	\$ 0.001178	
	interlata toll tandem	20%	\$ 0.001958	
			\$ 0.0013340	0.04
Interstate InterLATA				
	interlata toll direct	80%	\$ 0.001178	
	interlata toll tandem	20%	\$ 0.001958	
			\$ 0.0013340	0.14
Total Usage Per Line				\$ 3.11

Qwest Washington

UNE-P: Commission Ordered Rates

By Density Zone	Zone 1	Zone 2	Zone 3	Zone 4	Zone 5	Statewide
A. Residence Line Distribution	1.1%	17.9%	19.5%	21.9%	39.6%	100%
B. Loop	\$5.86	\$10.80	\$12.21	\$13.76	\$18.51	\$14.72
C. Analog Line Side Port	\$1.34	\$1.34	\$1.34	\$1.34	\$1.34	\$1.34
D. Local Switch Usage	\$ 0.00118	\$ 0.00118	\$ 0.00118	\$ 0.00118	\$ 0.00118	\$0.00118
E. Local Switch - Common Trunk Port						\$ -
F. Shared Transport						\$0.000780
G. DUF: Per Record Processed						\$0.001100

Qwest Washington_Daily Usage File Calculation

Usage Recording Costs	<u>Rate</u>	<u>Application</u>	<u>Factor</u>		<u>Cost/Month</u>
DUF: Per Record Processed	\$ 0.001100	Per Record	324	Records/Bill	\$ 0.36

Connectivity Margin for Qwest Montana

SGAT Rates

COSTS	Statewide				
	Average	BRA	Zone 1	Zone 2	Zone 3
Zone weights - Residential Lines		75%	11%	10%	4%
Loop	\$23.84	\$23.10	\$23.90	\$27.13	\$29.29
Port	\$1.58	\$1.58	\$1.58	\$1.58	\$1.58
Features	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Usage	\$4.20	\$4.20	\$4.20	\$4.20	\$4.20
DUF	\$0.32	\$0.32	\$0.32	\$0.32	\$0.32
OSS - RC	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Platform - Recurring Cost	\$29.94	\$29.20	\$30.00	\$33.23	\$35.39
NRC	\$0.21	\$0.21	\$0.21	\$0.21	\$0.21
Total Platform (w/NRC)	\$30.15	\$29.41	\$30.21	\$33.44	\$35.60

REVENUES RES @ Qwest MT

Basic Local Svc

UNE Zone BRA	\$	18.71
UNE Zone 1	\$	19.46
UNE Zone 2	\$	22.46
UNE Zone 3	\$	24.46
Basic Local Svc - Statewide	\$	19.40

Other Revenue Sources

Features	\$	4.96
Subscriber Line Charge	\$	6.00
IntraLATA Toll Contribution		
InterLATA Toll Contribution		
Access	\$	3.41
Federal USF	\$	2.61
Federal IAS (average)	\$	0.06

TNS Bill Harvest _ 3Q01 - 2Q02

AT&T Proprietary

AT&T Proprietary

State wide average -- detail by zone is not available

State wide average -- detail by zone is not available

Total Revenue (average)	\$	36.43
UNE Zone BRA	\$	35.75
UNE Zone 1	\$	36.50
UNE Zone 2	\$	39.50
UNE Zone 3	\$	41.50

MARGINS - RES @ Qwest MT Level %

UNE-P Margins			
\$ / Line		Average	
UNE Zone	BRA - (75%)	\$	6.33
	1 - (11%)	\$	6.28
	2 - (10%)	\$	6.05
	3 - (4%)	\$	5.89
	Average	\$	6.28

% / Line		Average	
UNE Zone	BRA		18%
	1		17%
	2		15%
	3		14%
	Average		17%

UNE-P and Resale Discount			
\$ / Line		Average	
UNE Zone	BRA - (75%)	\$	6.33
	1 - (11%)	\$	6.28
	2 - (10%)	\$	6.05
	3 - (4%)	\$	5.89
	Average	\$	6.28

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Montana Resale Margin

TSR Discount	18.10%
Residence	18.10%
Features	18.10%
Retail Revenue	
Residence	\$ 19.40
Features	\$ 4.96
TSR NRC	\$ 0.69
TSR Margin (no Toll)	\$ 4.39

Residential Toll Conversation MOU Per line Per Month
Average Residential Toll Minutes 3Q01 - 2Q02

Qwest		Montana
Intra-Lata	Intra-State	30.5
	Inter-State	-
Inter-Lata	Intra-State	21.7
	Inter-State	71.7

Source: TNS ReQuest Market Monitor and Bill Harvesting Study

ARMIS-Based Local DEM Per line Per Month

	2001 Per Line Per Month Local DEM	Local DEM per line CAGR: 2001 vs 1998	Estimated 2002 Per Line Per Month Local DEM
2-Way DEM per Line	1,908	13.9%	2,173
1-Way DEM per Line	954		1,087

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Exhibit - B - 5 (MT)

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Feature Revenue

Average Monthly Feature Revenue Per Bill	\$ 4.96
Source: TNS Bill Harvesting Study, 3Q01 - 2Q02	

Basic Local and UNE Loop Rates by UNE Zone

UNE Rate Zone	Res Lines	UNE Loop Price	Average Local Rate	# of Wire Centers	Line Distribution
BRA	196,427	\$23.10	\$ 18.71	Zones are not deaveraged by wire center.	75%
1	28,809	\$23.90	\$ 19.46		11%
2	26,190	\$27.13	\$ 22.46		10%
3	10,476	\$29.29	\$ 24.46		4%
Totals/Avg.	261,903	\$ 23.84	\$ 19.40	72	100%

Montana - Qwest		UNE Unit Cost Development									
		Local			Intralata toll			Intrastate InterLATA		Interstate InterLATA	
		interswitch local			On ILEC Network			interlata toll direct	interlata toll tandem	interlata toll direct	interlata toll tandem
		intraswitch local	direct	tandem	intralata toll direct	intralata toll tandem					
EO Switching orig (average)	AHD Rates \$ 0.001574	1	1	1	1	1		1	1	1	1
Local Switch - Common Trunk Port	\$ -		2	2	2	2		1	1	1	1
Shared Transport	\$ 0.001110		1	1	1	1			1		1
Reciprocal Comp/eo term	\$ 0.001574		1	1	1	1					
MOU		\$ 0.0015740	\$ 0.0042580	\$ 0.0042580	\$ 0.0042580	\$ 0.0042580		\$ 0.0015740	\$ 0.0026840	\$ 0.0015740	#####
Cost per Line		380.3	692.2	14.1	24.4	6.1		34.7	8.7	114.7	28.7
		\$ 0.598627	\$ 2.947327	\$ 0.060150	\$ 0.103952	\$ 0.025988		\$ 0.054572	\$ 0.023264	\$ 0.180508	\$ 0.076951

MOU Assumptions	Outbound	Inbound	total	intraoffice	tandem
Local	1087	0	1087	35%	2%
IntraLATA Toll	31	31	61	0%	20%
Intrastate InterLATA	22	22	43	0%	20%
Interstate InterLATA	72	72	143	0%	20%
Total	1210	124	1334		

DUF Record Calculation		Usage Records	
	Conversation MOU/MSG	Outbound	Inbound
Local	4	272	
IntraLATA Toll	4	8	8
Intrastate InterLATA	4	5	5
Interstate InterLATA	5	14	14
Total Records		326	

UNE Usage Cost by Service		% MOU	UNE Cost	Average Cost per Line
Local				
Intraswitch local	35%	\$ 0.001574		
Interswitch direct local	64%	\$ 0.004258		
Interswitch tandem local	1%	\$ 0.004258		
		\$ 0.003319		3.61
IntraLATA Toll				
On ILEC Network				
intralata toll direct	80%	\$ 0.004258		
intralata toll tandem	20%	\$ 0.004258		
		\$ 0.004258		0.26
Intrastate InterLATA				
interlata toll direct	80%	\$ 0.001574		
interlata toll tandem	20%	\$ 0.002684		
		\$ 0.0017960		0.08
Interstate InterLATA				
interlata toll direct	80%	\$ 0.001574		
interlata toll tandem	20%	\$ 0.002684		
		\$ 0.0017960		0.26
Total Usage Per Line				\$ 4.20

Qwest Montana
UNE-P: Commission Ordered Rates

	By Density Zone	BRA	Zone 1	Zone 2	Zone 3	Statewide
A.	Residence Line Distribution	75.0%	11.0%	10.0%	4.0%	100%
B.	Loop	\$23.10	\$23.90	\$27.13	\$29.29	\$23.84
C.	Analog Line Side Port	\$1.58	\$1.58	\$1.58	\$1.58	\$1.58
D.	Local Switch Usage	\$ 0.001574	\$ 0.001574	\$ 0.001574	\$ 0.001574	\$ 0.001574
E.	Local Switch - Common Trunk Port					\$ -
F.	Shared Transport					\$0.001110
G.	DUF: Per Record Processed					\$0.000985

Qwest Montana_Daily Usage File Calculation

Usage Recording Costs	<u>Rate</u>	<u>Application</u>	<u>Factor</u>		<u>Cost/Month</u>
DUF: Per Record Processed	\$ 0.000985	Per Record	326	Records/Bill	\$ 0.32

Connectivity Margin for Qwest Idaho

SGAT Rates

COSTS	Statewide Average	Zone 1	Zone 2	Zone 3
Zone weights		55%	36%	8%
Loop	\$20.68	\$15.65	\$23.76	\$40.50
Port	\$1.34	\$1.34	\$1.34	\$1.34
Usage	\$3.27	\$3.27	\$3.27	\$3.27
DUF	\$0.25	\$0.25	\$0.25	\$0.25
OSS - RC	\$0.00	\$0.00	\$0.00	\$0.00
Platform - Recurring Cost	\$25.54	\$20.51	\$28.62	\$45.36
NRC	\$0.21	\$0.21	\$0.21	\$0.21
Total Platform (w/NRC)	\$25.76	\$20.73	\$28.84	\$45.58

REVENUES	RES @ Qwest ID
<u>Basic Local Svc (average)</u>	\$ 17.03
Zone 1	\$ 17.50
Zone 2	\$ 16.69
Zone 3	\$ 15.39
Basic Local Svc -Statewide	\$ 17.03

Other Revenue Sources

Features	\$ 3.51
Subscriber Line Charge	\$ 6.00
IntraLATA Toll Contribution	
InterLATA Toll Contribution	
Access	\$ 2.60
<u>Total Revenue (average)</u>	\$ 29.14

TNS Bill Harvest _ 3Q01 - 2Q02

AT&T Proprietary

AT&T Proprietary

MARGINS - RES @ Qwest ID Level %

UNE-P Margins		
\$ / Line		
	Average	
1 - (55%)	\$	8.89
2 - (36%)	\$	(0.03)
3 - (8%)	\$	(18.07)
Residence Statewide		
Connectivity margin	\$	3.38

% / Line		
	Average	
1	30%	
2	0%	
3	-66%	
UNE-P	12%	

UNE-P and Resale Discount		
\$ / Line		
	Average	
1 - (55%)	\$	8.89
2 - (36%)	\$	3.60
3 - (8%)	\$	3.60
Residence Statewide		
Connectivity margin	\$	6.52

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Idaho Resale Margin

TSR Discount (avg)		% of lines	
Southern Idaho	18.25%	92.2%	
Northern Idaho	19.37%	7.8%	
Retail Revenue	\$ 20.54		
TRS NRC	\$ 5.00		
TSR Margin (no toll)	\$ 3.60		

Residential Toll Conversation MOU Per line Per Month
Average Residential Toll Minutes 3Q01 - 2Q02

Qwest		Idaho
Intra-Lata	Intra-State	31.2
	Inter-State	-
Inter-Lata	Intra-State	3.1
	Inter-State	49.7

Source: TNS ReQuest Market Monitor and Bill Harvesting Study

ARMIS-Based Local DEM Per line Per Month

	Estimated 2001 Per Line Per Month Local DEM	Local DEM per line CAGR: 2001 vs 1998	Estimated 2002 Per Line Per Month Local DEM
2-Way DEM per Line	1,795	8.7%	1,952
1-Way DEM per Line	898		976

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Exhibit - B - 5 (ID)

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Local Revenue and Features

Retail Rate			# of Wire	Line
Zone	Res Lines	Local Rate	Centers	Distribution
S - 1	16,320	\$ 11.49	6	4%
S - 1a	6,123	\$ 12.62	2	2%
S - 2	339,094	\$ 17.50	61	86%
N - 1	7,308	\$ 14.50	2	2%
N - 2	23,255	\$ 16.00	2	6%
Totals/Avg.	392,100	\$ 17.03	73	100%

Average Monthly Feature Revenue Per Bill	\$	3.51
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Source: TNS Bill Harvesting Study, 3Q01 - 2Q02

Basic Local and UNE Loop Rates by UNE Zone

UNE Rate Zone	Res Lines	UNE Loop Price	Average Local Rate	# of Wire Centers	Line Distribution
1	216,891	\$15.65	\$ 17.50		55.3%
2	142,242	\$23.76	\$ 16.69		36.3%
3	32,967	\$40.50	\$ 15.39		8.4%
Totals/Avg.	392,100	\$20.68	\$ 17.03	0	100%

Idaho - Qwest		UNE Unit Cost Development									
		Local			Intralata toll		Intrastate InterLATA		Interstate InterLATA		
			interswitch local		On ILEC Network		interlata toll direct	interlata toll tandem	interlata toll direct	interlata toll tandem	
		intraswitch local	direct	tandem	intralata toll direct	intralata toll tandem					
EO Switching orig	AHD Rates \$ 0.001343	1	1	1	1	1	1	1	1	1	
Local Switch - Common Trunk Port	\$ -		2	2	2	2	1	1	1	1	
Shared Transport	\$ 0.001110		1	1	1	1		1		1	
Reciprocal Comp/eo term	\$ 0.001343		1	1	1	1					
Tandem Switch - Common Trunk Port	\$ -			2		2		2		2	
		\$ 0.0013430	\$ 0.0037960	\$ 0.0037960	\$ 0.0037960	\$ 0.0037960	\$ 0.0013430	\$ 0.0024530	\$ 0.0013430	\$ 0.0024530	
MOU		341.6	621.8	12.7	25.0	6.2	4.9	1.2	79.6	19.9	
Cost per Line		\$ 0.458809	\$ 2.360223	\$ 0.048168	\$ 0.094760	\$ 0.023690	\$ 0.006624	\$ 0.003025	\$ 0.106899	\$ 0.048813	

MOU Assumptions	Outbound	Inbound	total	intraoffice	tandem
Local	976	0	976	35%	2%
IntraLATA Toll	31	31	62	0%	20%
Intrastate InterLATA	3	3	6	0%	20%
Interstate InterLATA	50	50	99	0%	20%
Total	1060	84	1144		

DUF Record Calculation		Usage Records	
	Conversation MOU/MSG	Outbound	Inbound
Local	4	244	
IntraLATA Toll	4	8	8
Intrastate InterLATA	4	1	1
Interstate InterLATA	5	10	10
Total Records		281	

UNE Usage Cost by Service		% MOU	UNE Cost	Average Cost per Line
Local				
	Intraswitch local	35%	\$ 0.001343	
	Interswitch direct local	64%	\$ 0.003796	
	Interswitch tandem local	1%	\$ 0.003796	
			\$ 0.002937	2.87
IntraLATA Toll				
	On ILEC Network			
	intralata toll direct	80%	\$ 0.003796	
	intralata toll tandem	20%	\$ 0.003796	
			\$ 0.003796	0.24
Intrastate InterLATA				
	interlata toll direct	80%	\$ 0.001343	
	interlata toll tandem	20%	\$ 0.002453	
			\$ 0.0015650	0.01
Interstate InterLATA				
	interlata toll direct	80%	\$ 0.001343	
	interlata toll tandem	20%	\$ 0.002453	
			\$ 0.0015650	0.16
Total Usage Per Line				\$ 3.27

Qwest Idaho
UNE-P: Current UNE Rates

By Density Zone	Zone 1	Zone 2	Zone 3	Statewide
A. Residence Line Distribution	55.3%	36.3%	8.4%	100%
B. Loop	\$15.65	\$23.76	\$40.50	\$20.68
C. Analog Line Side Port	\$1.34	\$1.34	\$1.34	\$1.34
D. Local Switch Usage				\$ 0.001343
E. Local Switch - Common Trunk Port				\$ -
F. Tandem Switching - trunk port				\$ -
G. Shared Transport				\$ 0.001110
H. DUF: Per Record Processed				\$ 0.000900

Qwest ID_Daily Usage File Calculation

Usage Recording Costs	<u>Rate</u>	<u>Application</u>	<u>Factor</u>		<u>Cost/Month</u>
DUF: Per Record Processed	\$ 0.000900	Per Record	281	Records/Bill	\$ 0.25

Connectivity Margin for Qwest Iowa SGAT Rates

COSTS	Statewide			
	Average	Zone 1	Zone 2	Zone 3
Zone weights		28%	54%	18%
Loop	\$16.48	\$12.69	\$15.14	\$26.39
Port	\$1.15	\$1.15	\$1.15	\$1.15
Features	\$0.00	\$0.00	\$0.00	\$0.00
Usage	\$4.00	\$4.00	\$4.00	\$4.00
DUF	\$0.30	\$0.30	\$0.30	\$0.30
OSS - RC	\$0.00	\$0.00	\$0.00	\$0.00
Platform - Recurring Cost	\$21.93	\$18.14	\$20.59	\$31.84
NRC	\$0.22	\$0.22	\$0.22	\$0.22
Total Platform (w/NRC)	\$22.15	\$18.36	\$20.81	\$32.06

REVENUES RES @ Qwest IA

<u>Basic Local Svc</u>			
UNE Zone 1	\$	12.51	
UNE Zone 2	\$	11.81	
UNE Zone 3	\$	11.65	
Basic Local Svc - Statewide	\$	11.98	

Other Revenue Sources

Features	\$	7.08
Subscriber Line Charge	\$	4.82
IntraLATA Toll Contribution		
InterLATA Toll Contribution		
Access	\$	1.31
Total Revenue (average)	\$	25.19

TNS Bill Harvest _ 3Q01 - 2Q02

AT&T Proprietary

AT&T Proprietary

MARGINS - RES @ Qwest IA Level %

UNE-P Margins			
\$ / Line		Average	
UNE Zone	1 - (28%)	\$	7.36
	2 - (54%)	\$	4.21
	3 - (18%)	\$	(7.20)
	Average	\$	3.03

% / Line		Average	
UNE Zone	1		29%
	2		17%
	3		-29%
	Average		14%

UNE-P and Resale Discount			
\$ / Line		Average	
UNE Zone	1 - (28%)	\$	7.36
	2 - (54%)	\$	4.62
	3 - (18%)	\$	4.62
	Average	\$	5.38

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Iowa Resale Margin

TSR Discount	24.8%
Residence	10.27%
Features	49.38%
Retail Revenue	
Residence	\$ 11.98
Features	\$ 7.08
TSR Margin (no Toll)	\$ 4.62

Residential Toll Conversation MOU Per line Per Month
Average Residential Toll Minutes 3Q01 - 2Q02

Qwest		Iowa
Intra-Lata	Intra-State	30.1
	Inter-State	1.0
Inter-Lata	Intra-State	13.7
	Inter-State	66.8

Source: TNS ReQuest Market Monitor and Bill Harvesting Study

ARMIS-Based Local DEM Per line Per Month

	2001 Per Line Per Month Local DEM	Local DEM per line CAGR: 2001 vs 1998	Estimated 2002 Per Line Per Month Local DEM
2-Way DEM per Line	1,906	10.1%	2,098
1-Way DEM per Line	953		1,049

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Exhibit - B - 5 (IA)

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Local Revenue and Features

Retail Rate Zone	Res Lines	Average Local Rate	# of Wire Centers	Line Distribution
Rate Group 1	114,087	\$ 10.71	55	16%
Rate Group 2	266,137	\$ 11.68	37	37%
Rate Group 3	335,920	\$ 12.65	44	47%
Totals/Avg.	716,144	\$ 11.98	136	100%

Average Monthly Feature Revenue Per Bill	\$ 7.08
<i>Source: TNS Bill Harvesting Study, 3Q01 - 2Q02</i>	

Basic Local and UNE Loop Rates by UNE Zone

UNE Rate Zone	Res Lines	UNE Loop Price	Average Local Rate	# of Wire Centers	Line Distribution
1	199,804	\$12.69	\$ 12.51	15	28%
2	387,434	\$15.14	\$ 11.81	46	54%
3	128,906	\$26.39	\$ 11.65	75	18%
Totals/Avg.	716,144	\$ 16.48	\$ 11.98	136	100%

Iowa - Qwest		UNE Unit Cost Development									
		Local			Intralata toll		Intrastate InterLATA		Interstate InterLATA		
			interswitch local		On ILEC Network		interlata toll direct	interlata toll tandem	interlata toll direct	interlata toll tandem	
		intraswitch local	direct	tandem	intralata toll direct	intralata toll tandem					
EO Switching orig	AHD Rates \$ 0.001558	1	1	1	1	1	1	1	1	1	
Local Switch - Common Trunk Port	\$ -		2	2	2	2	1	1	1	1	
Shared Transport	\$ 0.001110		1	1	1	1		1		1	
Reciprocal Comp/eo term	\$ 0.001558		1	1	1	1					
		\$ 0.0015580	\$ 0.0042260	\$ 0.0042260	\$ 0.0042260	\$ 0.0042260	\$ 0.0015580	\$ 0.0026680	\$ 0.0015580	\$ 0.0026680	
MOU		367.2	668.2	13.6	24.9	6.2	22.0	5.5	107.0	26.7	
Cost per Line		\$ 0.572037	\$ 2.823954	\$ 0.057632	\$ 0.105275	\$ 0.026319	\$ 0.034267	\$ 0.014670	\$ 0.166633	\$ 0.071338	

MOU Assumptions	Outbound	Inbound	total	intraoffice	tandem
Local	1049	0	1049	35%	2%
IntraLATA Toll	31	31	62	0%	20%
Intrastate InterLATA	14	14	27	0%	20%
Interstate InterLATA	67	67	134	0%	20%
Total	1161	112	1272		

DUF Record Calculation	Usage Records		
	Conversation MOU/MSG	Outbound	Inbound
Local	4	262	
IntraLATA Toll	4	8	8
Intrastate InterLATA	4	3	3
Interstate InterLATA	5	13	13
Total Records		311	

UNE Usage Cost by Service	% MOU	UNE Cost	Average Cost per Line
Local			
Intraswitch local	35%	\$ 0.001558	
Interswitch direct local	64%	\$ 0.004226	
Interswitch tandem local	1%	\$ 0.004226	
		\$ 0.003292	3.45
IntraLATA Toll			
On ILEC Network			
intralata toll direct	80%	\$ 0.004226	
intralata toll tandem	20%	\$ 0.004226	
		\$ 0.004226	0.26
Intrastate InterLATA			
interlata toll direct	80%	\$ 0.001558	
interlata toll tandem	20%	\$ 0.002668	
		\$ 0.0017800	0.05
Interstate InterLATA			
interlata toll direct	80%	\$ 0.001558	
interlata toll tandem	20%	\$ 0.002668	
		\$ 0.0017800	0.24
Total Usage Per Line			\$ 4.00

Qwest Iowa
UNE-P: Commission Ordered Rates

By Density Zone		Zone 1	Zone 2	Zone 3	Statewide
A.	Residence Line Distribution	28%	54%	18%	100%
B.	Loop	\$12.69	\$15.14	\$26.39	\$16.48
C.	Analog Line Side Port	\$1.15	\$1.15	\$1.15	\$1.15
D.	Local Switch Usage				\$ 0.001558
E.	Local Switch - Common Trunk Port				\$ -
F.	Shared Transport				\$ 0.001110
G.	DUF: Per Record Processed				\$ 0.000948

Qwest Iowa_Daily Usage File Calculation

Usage Recording Costs	<u>Rate</u>	<u>Application</u>	<u>Factor</u>		<u>Cost/Month</u>
DUF: Per Record Processed	\$ 0.000948	Per Record	311	Records/Bill	\$ 0.30

Qwest Non-Loop Rate Detail

Exhibit - A (1 of 4)

	2-Aug-02	7-Oct-02	7-Oct-02	7-Oct-02	9-Oct-02	7-Oct-02
	CO - QVR	MT - QVR III	ND - QVR III	NE - QVR III	WA - QVR IV	WY - QVR II
UNE Rates						
Orig. EO Switching	\$ 0.0016100	\$ 0.0015740	\$ 0.0014750	\$ 0.0012600	\$ 0.0011780	\$ 0.0009200
EO Switch Port						
Shared Transport (Blended)	\$ 0.0011100	\$ 0.0011100	\$ 0.0011100	\$ 0.0011100	\$ 0.0007600	\$ 0.0011100
Shared Transport (Local)						
Shared Transport (Toll)						
Common Xport	\$ 0.0004290	\$ 0.0009980	\$ 0.0006900	\$ 0.0006750	\$ 0.0003600	\$ 0.0009710
Tandem switching (usage+port)	\$ 0.0006900	\$ 0.0006900	\$ 0.0006900	\$ 0.0006900	\$ 0.0006900	\$ 0.0006900
Term. EO Switching	\$ 0.0016100	\$ 0.0015740	\$ 0.0014750	\$ 0.0012600	\$ 0.0012000	\$ 0.0009200
Term. EO Switch Port						
UNE Cost						
Orig. EO Switching	\$ 1.80	\$ 1.92	\$ 2.28	\$ 1.65	\$ 1.50	\$ 1.06
Orig. EO Switch Port						
Shared Transport (Blended)	\$ 0.70	\$ 0.75	\$ 0.97	\$ 0.81	\$ 0.55	\$ 0.65
Common Xport - Blended						
Tandem switching (usage+port)						
Term. EO Switching	\$ 0.94	\$ 0.98	\$ 1.20	\$ 0.86	\$ 0.81	\$ 0.47
Term. EO Switch Port						
Port	\$ 1.15	\$ 1.58	\$ 1.27	\$ 2.47	\$ 1.34	\$ 2.64
Features		\$ -			\$ -	\$ -
Total Switch Related	\$ 3.89	\$ 4.47	\$ 4.75	\$ 4.98	\$ 3.65	\$ 4.17
Non-Switch Non-Loop	\$ 0.70	\$ 0.75	\$ 0.97	\$ 0.81	\$ 0.55	\$ 0.65
Total Non-Loop	\$ 4.59	\$ 5.22	\$ 5.72	\$ 5.79	\$ 4.20	\$ 4.82

2001 DEM Per Avg Line (/2)	CO	MT	ND	NE	WA	WY
Local	895	954	1,250	1,047	1,042	789
Toll	225	264	295	262	231	358

MOU Assumptions	Intraoffice %	Tandem %
Local	35%	2.0%
Toll	0%	20.0%

2001 DEM Per Avg Line	CO	MT	ND	NE	WA	WY
Local	1,791	1,908	2,501	2,093	2,084	1,579
Total	2,240	2,436	3,091	2,617	2,546	2,294

Cost Adjusted Non-Loop Rates

State	UNE Non-Loop Rate, per line per month	% Diff in UNE Non-Loop Rate: Other states vs CO	FCC SynMod Non-Loop cost per line.	% Diff in SynMod UNE Non-Loop Cost: Other states vs CO	% Diff in Cost Adjusted UNE Non-Loop Rate: Other states vs CO
ND - QVR III	\$ 5.72	25%	\$ 4.48	10%	14%
WA - QVR IV	\$ 4.20	-9%	\$ 3.48	-15%	7%

Cost Adjusted Switching Rates

State	UNE Switching Rate, per line per month	% Diff in UNE Switching Rate: Other states vs CO	FCC SynMod Switching cost per line.	% Diff in SynMod UNE Switching Cost: Other states vs CO	% Diff in Cost Adjusted UNE Switching Rate: Other states vs CO
MT - QVR III	\$ 4.47	15%	\$ 3.85	7%	7%
ND - QVR III	\$ 4.75	22%	\$ 3.46	-4%	27%
NE - QVR III	\$ 4.98	28%	\$ 3.93	9%	17%
WA - QVR IV	\$ 3.65	-6%	\$ 3.16	-12%	7%
WY - QVR II	\$ 4.17	7%	\$ 3.44	-4%	11%

**Synthesis Model UNE
Cost Detail**

Exhibit - A (4 of 4)

NECA ID	state	EO Switching	Signaling	Switch & Signaling	Common Transport	Tandem Switch	UNE Platform Non Loop
485104	Montana	\$ 3.46	\$ 0.39	\$ 3.85	\$ 2.30	\$ 0.20	\$ 6.35
385144	North Dakota - SOX	\$ 3.05	\$ 0.41	\$ 3.46	\$ 0.73	\$ 0.29	\$ 4.48
385144	North Dakota	\$ 3.22	\$ 0.42	\$ 3.64	\$ 1.36	\$ 0.27	\$ 5.26
375143	Nebraska	\$ 3.67	\$ 0.26	\$ 3.93	\$ 1.21	\$ 0.16	\$ 5.30
525161	Washington	\$ 3.08	\$ 0.08	\$ 3.16	\$ 0.26	\$ 0.06	\$ 3.48
515108	Wyoming	\$ 3.16	\$ 0.29	\$ 3.44	\$ 1.68	\$ 0.15	\$ 5.28

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